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### A Prospectus: Why It's Important

Reading a prospectus is close to the top of an investor's "to do" list when considering and completing a purchase of securities. While the length and technical language may be uninviting, the content of the prospectus is essential to you, the investor. If you don't understand what you're reading, ask your lawyer, accountant, securities dealer or financial adviser to explain it to you. Reading and understanding the prospectus should help you make an informed decision about an investment.

"A prospectus is a narrative account -- past, present, and, to a certain extent, future -- of a company that is issuing securities to the public," explains Susan Wolburgh Jenah, a Deputy Director in the Corporate Finance Branch at the Ontario Securities Commission. A prospectus contains information about the company's history, operations, business plan and proposed use of proceeds, as well as financial statements. The document also includes information about officers, directors and principal shareholders of the company.

The summary and the explanation of risk factors, which appear in all prospectuses, are extremely important. For example, it may warn that the securities offered are speculative, meaning you could lose all of your investment. Do you feel comfortable assuming that degree of risk? The prospectus could also say that

you may not be able to sell the securities as no market exists for them. If you're unsure about the summary and the risk factors associated with buying the securities, ask your adviser.

The Ontario Securities Act requires that a company (called the "issuer") prepare a preliminary prospectus and final prospectus for potential investors when it offers securities for sale to the public. It's the securities dealer's responsibility to forward a copy of the prospectus to you. A preliminary prospectus may exclude the offering price of the securities to be distributed; the final prospectus will include the offering price.

There are several types of prospectuses. A **short-form prospectus**, usually issued by the larger corporations which meet specific criteria, is relatively brief because it refers to financial statements or other documents that have already been released to the public. A **simplified prospectus**, which may be used by mutual funds, includes information about the mutual fund and refers readers to annual information forms available from the issuer. If the issuer is not eligible to issue a short-form prospectus, simplified prospectus or another type of prospectus, the issuer will provide a regular **long-form prospectus**.

Before companies sell securities to the public, they generally must file a preliminary prospectus and obtain a "receipt" for a final prospectus from securities commissions in the provinces

where they prepare to distribute securities. Wolburgh Jenah explains that, at the Ontario Securities Commission, the Corporate Finance Branch reviews and issues receipts for prospectuses.

"Staff review the prospectuses for compliance with the law and applicable policy statements, and provide the information required," says Wolburgh Jenah. "The Commission does not assess the merits of the investment, nor does it guarantee the completeness or accuracy of the information contained in the prospectus. The responsibility of ensuring the prospectus provides "full, true and plain disclosure" as required by the Ontario Securities Act, rests with, among others, the issuer and the underwriter." (An underwriter purchases securities for distribution or offers to sell securities as an agent for the issuer.)

"Be sure to read the prospectus, particularly the summary and the explanation of risk factors, before you complete a purchase of securities," urges Wolburgh Jenah. "And remember that under the Ontario Securities Act, you have the right to withdraw from your purchase by writing to the dealer up to two days after you receive the prospectus."

If you bought the securities during a distribution under a prospectus and if the prospectus contains false or misleading



information, you may cancel your purchase within a specific time frame or you may sue in civil court for damages.

For more information, write for the brochure **An Introduction to Investing in Securities** available free from the Ontario Securities Commission, Communications Section, 20 Queen St. West, 8th Flr. Toronto, Ont. M5H 3S8.

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